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DIRECTORS AND ADVISERS

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Directors	R King K P Shah J J P Kissane J J Diver I S Fenn Lord Birdwood
Secretary	K P Shah FCCA
Company Registration Number	3033333
Registered Office	80 Fleet Street London EC4Y 1NA
Solicitors	Gold Mann & Co 80 Fleet Street London EC4Y 1NA
Auditors	HLB Kidsons Chartered Accountants and Registered Auditors Ocean House Waterloo Lane Chelmsford Essex CM1 1BD
Stockbrokers	Collins Stewart Limited 21 New Street Bishopsgate London EC2M 4HR
Bankers	Barclays Bank plc MashreqBank psc National Westminster Bank plc Standard Chartered Bank Fortis Bank
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3BR

The Company has subscribed to UK Equities Direct, an online internet service made available to shareholders free of charge. Shareholders will be able to access financial information, including the Annual and Interim Reports, public announcements and share price data. The web site address is <http://www.hemscott.com>

CHAIRMAN'S STATEMENT

Set against a general background of extremely difficult domestic and international trading conditions, it is especially pleasing for me to be able to report record results for the Group for the sixth consecutive year, with sales approaching £100 million, operating profits exceeding £10 million for the first time, and additionally, that the Group is well positioned to continue this growth.

RESULTS

Sales for the year ended 31 August 1999 increased by 44% from £68.7 million to £99.0 million.

Profit before tax rose by 29% to £9.4 million (1998: £7.3 million).

Earnings per share improved by 17% to 30.12 pence (1998: 25.79 pence).

EBITDA increased from £8.7million to £11.6million, a rise of 33%.

The Group remains cash generative.

DIVIDEND

In line with the Group's progressive dividend policy it is recommended that a final dividend of 4.75 pence per share be paid on 28 January 2000 to shareholders on the register at the close of business on 10 January 2000. Subject to shareholder approval, the total dividend for the full year will be 6.5 pence per share, an increase of 20% over the previous year.

GROUP STRUCTURE

The Group now comprises of three divisions (see chart on the inside back cover).

Toy Options, the original core company, which together with WWL (UK), form The Toy Division.

Downpace, Q-Stat and Prelude form The Gift, Stationery and Toiletry Division. (Q-Stat and Prelude have since the year end been amalgamated to form Universal Concepts (UK)). Both Downpace and Universal Concepts (UK) design and develop product, which is sold internationally through World Wide Licenses in Hong Kong.

These two divisions are based in the UK.

The Overseas Division is made up of World Wide Licenses and Delta Millennium Far East, both of which are based in Hong Kong; the latter distributes WWL's computer accessories in the USA through its subsidiary Delta Millennium Inc.

TRADING REPORT

Our Group trading is still reliant to a significant, albeit decreasing, degree upon the UK market, which has been widely reported as being difficult both in the year under review and the current year. It is therefore very gratifying that, despite disappointing results from certain Group companies, we have again traded through a difficult period at record levels.

CHAIRMAN'S STATEMENT

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THE TOY DIVISION

Toy Options

As predicted in the interim report, Toy Options has continued its uninterrupted growth for the year as a whole.

WWL (UK)

This company has concentrated on the sale of computer accessories and watches, has traded profitably for the year, and is poised for growth in the current year.

Yet again, this division has put in an excellent performance and is well set for continued growth in the current year.

THE GIFT, STATIONERY AND TOILETRY DIVISION

Downpace

Trading was above expectation for the year as a result of having the benefit of good licences and strong growth in the distribution base. This company, which at the time of its acquisition had a mature, experienced and effective management team, has been able to maximise the benefits of being part of the Group.

Universal Concepts (UK)

(Q-Stat and Prelude in the year under review)

Trading for both Q-Stat and Prelude was very disappointing. In order to ensure that the opportunities for growth can be exploited to the full, these companies have been amalgamated to form Universal Concepts (UK), and a new management team and infrastructure have been put in place. This company is now budgeted for profitable growth in the current year.

The division as a whole has become an important part of the Group and will form a solid base for future expansion.

OVERSEAS DIVISION

World Wide Licenses

WWL's performance was disappointing, and it is now clear that we underestimated the degree of and the timescale necessary for the reorganisation that was required to ensure that this company could fulfill its potential as the key overseas group company. Whilst it would be too early to say that this process is now complete, a great deal has been accomplished and a strong base has been developed.



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CHAIRMAN'S STATEMENT

Delta Millennium

Many of the logistical problems associated with the early sales have now been addressed and a sound customer base has been built, albeit at the expense of addressing stock problems caused by late delivery last year. Provided that new product ranges can now be delivered in a timely manner, this company should make up some ground in the current year.

To date, the trading of this division has been disappointing but we are confident that we are taking the necessary action to ensure that it will become profitable in the near future.

PERSONNEL

The Group is very fortunate to have so many dedicated and hardworking employees, without whom we would not have been able to have come through a difficult year with such a strong trading result.

The Board would like to thank all concerned and ensure that everyone is aware that their efforts are truly appreciated.

It remains our policy to continue to incentivise our key personnel and the Board is currently investigating how this can be effectively achieved given the restrictive regulatory guidelines under which we have to operate.

OUTLOOK

Each division increased its sales during the year under review in the face of difficult trading conditions in virtually all our markets, and I think it is important to emphasise that despite the difficulties and setbacks, our management team has successfully led the company through to another year of record profits and earnings per share.

The Board recognises that there are further improvements to our current infrastructure still to be completed before we can realise our goal of profitability in all areas of the Group's trading but we are moving in the right direction and as losses in certain subsidiaries are eliminated, we should benefit strongly in terms of future performance.

The Board believes that the Group strategy of expanding both the product base and the Group's distribution profile, particularly on the international front, will continue to provide a strong platform for maintained growth. The Board is also working closely with customers so as to be able to meet the needs for, and to take advantage of the opportunities for, the development of e-commerce and electronic trading.

CHAIRMAN'S STATEMENT

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As a result of the expansion of our product ranges and licences throughout the Group, no single product or licence represents a significant percentage of Group business and, accordingly, our future success is not dependent to any material extent or any one product range or licence. The following list sets out some of the important trading opportunities for the Group both in the current year and the months ahead:

Toy Options (toys)

Wuvvies, Toy Story 2, Cartoon Network, Super Soaker, Chicken Run and Britney Spears dolls.

WWL (UK) (watches and computer accessories)

Barbie, Pokemon, South Park, W.C.W., Toy Story 2 and Cartoon Network.

Downpace (giftware)

South Park, Buffy The Vampire, Cartoon Network, Rex The Runt and Mr. Men.

Universal Concepts (stationery and toiletries)

Pokemon, Cartoon Network, Dick's House, Walk with Dinosaurs and Scooby Doo.

World Wide Licenses (all product areas)

Noddy, Pokemon, Warners, Disney and Mr. Men.

Delta Millennium (computer accessories)

Barbie, Hot Wheels, Snoopy and Disney.

All Divisions

Euro 2000 joint venture.

I would like to conclude by saying that the Group has achieved sustained growth, year on year, for the last six consecutive years and your Board is confident that we have in place the products, licences, personnel and the management team, to ensure that the Group is well placed to maintain this track record into the Millennium.



Richard King
CHAIRMAN

29 November 1999

REPORT OF THE DIRECTORS

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The directors present their report together with the accounts for the year ended 31 August 1999.

Principal activity

The Group is engaged in the design, development and international distribution and sale of branded and character-licensed toys, watches, clocks, giftware, toiletries, stationery and computer accessories.

Business review, results and dividend

A review of the business is contained in the Chairman's Statement on pages 2-5 and the results are detailed in the consolidated profit and loss account on page 13 and the consolidated cash flow statement on page 16.

There was a profit for the year, after taxation and minority interest, amounting to £6,324,000 and the directors propose payment on 28 January 2000 of a final dividend of 4.75 pence per share to all shareholders registered as at the close of business on 10 January 2000.

An interim dividend of 1.75 pence per share was paid on 30 July 1999.

Directors and their interests in shares

The directors and their beneficial interests (including family interests) in the shares of The Character Group plc are:

Directors	31 August 1999		1 September 1998	
	Number of ordinary shares	Ordinary shares under option	Number of ordinary shares	Ordinary shares under option
R King	4,058,000	-	4,508,000	-
K P Shah	3,310,000	-	3,310,000	-
J J P Kissane	970,000	100,000	970,000	100,000
J J Diver	1,065,320	100,000	1,065,320	100,000
I S Fenn	9,000	-	9,000	-
Lord Birdwood	8,750	-	8,750	-

Included in the interests of R King are his interests in 1,828,000 ordinary shares held by Cedarberg Investments Limited and 160,000 ordinary shares beneficially owned by Mrs M H King (the spouse of R King). Included in the interests of K P Shah are the interests of Sarissa Holdings Limited in 3,310,000 ordinary shares.

In addition to the above, the Company's pension scheme, in which R King, K P Shah and J J Diver are interested, held 150,000 ordinary shares at 31 August 1999.

There have been no changes to the above share interests between 31 August 1999 and 19 November 1999.

Pursuant to the requirements of their appointment letters, Lord Birdwood and Mr I S Fenn retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

Lord Birdwood (aged 61) is a non-executive director and has considerable experience as a director of quoted and private companies. He has a particular interest in executive placement and recruitment.

Mr Fenn (aged 56) is also a non-executive director and has had extensive experience in corporate finance, gained in stockbroking and merchant banking in the City of London.



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REPORT OF THE DIRECTORS

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Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. Company staff at every level are encouraged to make their fullest possible contribution to the Group's success.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, marital status, race, age or disability. All decisions are based on merit.

It is the Group's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and should staff become disabled during the course of their employment, efforts would be made to provide appropriate re-training. The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group by way of regular meetings, newsletters and publications, together with distribution of the Annual Report.

Employees are encouraged to become involved in the financial performance of the Group through the share option schemes.

Policy and practice on payment of creditors

The Group does not follow any standard code of practice for paying its suppliers, but instead agrees with each principal supplier the terms of payment for each transaction or series of transactions. The Group's policy is then to abide by those pre-arranged terms for payment.

At 31 August 1999, trade creditors of the Group represented an average of 67 days credit in relation to total purchases for the year.

Statement of directors' responsibilities

We are required under company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and the Company, and of the Group profit or loss for that year.

In preparing these accounts we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on a going concern basis unless, in our view, the Group and the Company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the Group's and the Company's assets
- taking reasonable steps for the prevention and detection of fraud.

Share capital

During the year, 48,000 ordinary shares were allotted for cash following the exercise of options.

Share option schemes

Details of the share option schemes are given in note 16 to the accounts.



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REPORT OF THE DIRECTORS

Substantial shareholders other than directors

At 19 November 1999 the following, other than the directors and their family interests, had notified the Company of an interest in 3% or more of the Company's ordinary shares:

Name	Number of ordinary shares	Shareholding %
Sweet Briar Investments Limited	1,875,000	8.9%

Close company status

In the opinion of the directors, the Company is a close company under the provisions of the Income and Corporation Taxes Act 1988.

Charitable and political donations

Payments of a charitable nature made during the year amounted to £55,657. There were no political contributions.

Year 2000 compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers.

The Company has now completed its assessment of risk to its own business resulting from the date change to the year 2000. All necessary action has been taken and all key risk areas are now year 2000 compliant.

It is not possible to guarantee fault free performance with regard to the operation of systems after 31 December 1999. However, the Board is confident that the impact of the year 2000 will not pose a significant operational threat.

Special Business at the Annual General Meeting

Approval will be sought at the forthcoming Annual General Meeting of the Company to renew certain of the authorities previously granted to the directors to buy back shares for cancellation, to allot unissued shares in the capital of the Company and, in certain circumstances, to allot shares for cash otherwise than to existing shareholders pro rata to their holdings. These authorities are in line with current institutional guidelines.

Auditors

A resolution to re-appoint HLB Kidsons (formerly Kidsons Impey) as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board


K P Shah FCCA
SECRETARY

Registered Office:
80 Fleet Street
London EC4Y 1NA

29 November 1999

REPORT OF THE REMUNERATION COMMITTEE

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The following is a report from the Remuneration Committee, which has been approved and adopted by the Board for submission to shareholders.

The Remuneration Committee

The Remuneration Committee consists of two non-executive directors, Lord Birdwood and Mr I S Fenn. The policy of the Remuneration Committee is framed to give consideration to the provisions as to best practice set out in the Combined Code.

Remuneration of Directors

Each executive director is paid a basic salary and is entitled to benefits, namely payments of pension contributions to a suitable scheme of his choice, the use of a company car, fuel and participation in a private health care scheme.

Each of the executive directors is also entitled under the terms of his service contract to a bonus of an amount up to his basic salary in the event that specified performance targets are met or exceeded. These targets require increases in earnings per Ordinary Share in each financial year of the Group, adjusted to exclude certain exceptional non-trading items.

The basic salaries referred to above are reviewed annually on 1 June in every year by the Remuneration Committee. The service contracts of the executive directors incorporate notice periods of 12 months.

These arrangements were agreed by the Board of Directors in May 1995, just prior to the flotation of the Company on the London Stock Exchange, in consultation with their legal and financial advisers. In doing so, they took account of other listed companies of comparable size and business complexity, and in particular of the need to put in place incentive arrangements for each executive director which would be challenging and compatible with sustainable growth in shareholder value whilst not being over-complicated or manipulable. The Board's policy on pension arrangements is to favour money purchase schemes rather than defined benefits ("final salary") schemes.

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of the shareholders. Executive directors holding less than 10% of the Company's issued share capital are eligible to participate in the Company's Inland Revenue approved executive share option scheme, details of which can be found in note 16 to the accounts. All executive directors are entitled to participate in the Company's unapproved executive share option scheme, details of which may also be found in note 16 to the accounts.

The non-executive directors are appointed for a fixed term expiring at each Annual General Meeting of the Company, when they may offer themselves for re-election. They are each entitled to fees, currently at the rate of £15,000 per annum, plus expenses, without any right to compensation on early termination.



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REPORT OF THE REMUNERATION COMMITTEE

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The following table shows a breakdown of the remuneration of the directors for the years ended 31 August 1999 and 31 August 1998.

Year ended 31 August 1999

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	135,000	135,000	16,848	40,500	327,348
K P Shah	130,000	130,000	9,080	26,000	295,080
J J P Kissane	110,000	110,000	9,489	37,297	266,786
J J Diver	110,000	110,000	5,798	19,250	245,048
I S Fenn (non-executive)	15,000	-	-	-	15,000
Lord Birdwood (non-executive)	15,000	-	-	-	15,000
	<u>£515,000</u>	<u>£485,000</u>	<u>£41,215</u>	<u>£123,047</u>	<u>£1,164,262</u>

Year ended 31 August 1998

	Salary/fees	Performance bonus	Benefit in kind	Pension contribution	Total
R King	135,000	135,000	12,630	40,500	323,130
K P Shah	130,000	130,000	8,826	26,000	294,826
J J P Kissane	110,000	110,000	8,243	17,250	245,493
J J Diver	110,000	110,000	4,957	19,250	244,207
I S Fenn (non-executive)	15,000	-	-	-	15,000
Lord Birdwood (non-executive)	15,000	-	-	-	15,000
	<u>£515,000</u>	<u>£485,000</u>	<u>£34,656</u>	<u>£103,000</u>	<u>£1,137,656</u>

On 28 March 1996, each of J J P Kissane and J J Diver was granted options over 100,000 ordinary shares in the Company at an exercise price of 107p per share, exercisable between 28 March 1999 and 27 March 2006.

At 31 August 1999 the mid-market price of a The Character Group plc ordinary share was 301 pence, and during the year the price ranged from 248.5 pence to 346 pence.

Lord Birdwood

Chairman - Remuneration Committee

29 November 1999



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CORPORATE GOVERNANCE

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The directors have considered the provisions set out in the Principles of Good Governance and Code of Best Practice (“the Combined Code”) appended to the Stock Exchange Listing Rules.

Directors

The Board of directors comprises four executive directors and two non-executive directors, as detailed on page 1. The Board is structured so that no one individual or group dominates the decision-making process.

Board meetings are held four times a year. A formal schedule of matters specifically reserved to the Board, including inter alia, overall strategy and monitoring of financial performance, has been adopted.

The Board recognises the importance of the provisions of the Code but considers that full compliance by the Company is not appropriate for a company of its size. The Company has two non-executive directors, where the Code recommends a minimum of three, but the Board currently considers that its composition is appropriate for the size and complexity of the Group’s business.

Richard King, Chairman and Chief Executive, fulfils the dual role of running the Board with the executive responsibility for the organisation of the Group’s business, with the support of fellow executive directors and experienced non-executive directors. The Board considers that this executive support enables Mr King to fulfil the requirements of both roles successfully, and that this arrangement is appropriate given the size and method of operation of the Group.

The Board has also established an Audit Committee and a Remuneration Committee with duties and responsibilities formally delegated to them.

Audit Committee

I S Fenn (Chairman)
Lord Birdwood
R King

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to Group accounts and the Group’s internal control systems.

Remuneration Committee

Lord Birdwood (Chairman)
I S Fenn

The Remuneration Committee is responsible for setting the remuneration of the executive directors and the senior management and for the operation of the Company’s share option schemes. The report of the Remuneration Committee is shown on pages 9 and 10. All non-executive directors of the Company are entitled to seek, at the Company’s expense, independent professional advice in connection with their roles on these committees.

Internal Financial Control

The Board of directors is responsible for ensuring that an adequate system of internal financial control is operated by the Group. No system of internal financial control can provide absolute assurance against material mis-statement or loss, but any system of controls implemented by the Board should be appropriate to the business, in order to provide reasonable assurance that assets are safeguarded, transactions are



CORPORATE GOVERNANCE

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authorised and recorded properly and that material errors or irregularities are either prevented or detected within a timely period. The key elements of the internal financial control system put in place by the directors are:

- the setting of appropriate levels of authorisation which must be adhered to as the Group conducts its business;
- the definition of a recognised organisational and management reporting structure within which individual executive directors have responsibility for the day-to-day running of the business;
- established and detailed procedures for the setting of annual budgets and monthly forecasts and the ongoing monitoring of actual financial performance against these targets, on a monthly basis, both at operational and Board level; and
- a clearly defined and well-established set of accounting policies which ensure that the financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

The directors have duly undertaken a review of the key internal financial controls which have been in place within the Group during the year ended 31 August 1999.

Relations with shareholders

The Board supports the principle of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and an interim report.

Statement of Compliance with the Combined Code

Throughout the year to 31 August 1999, the Company has applied the principles and complied fully with the code provisions set out in section 1 of the Combined Code, except as noted below.

The Company has not complied with code provision D.3.1 concerning the audit committee. The make up of the audit committee does not comply with code provision that states that the committee should be made up entirely of non-executive directors. The Board consider that the inclusion of R King on the audit committee is appropriate, given the method of operation of the Group.

Going Concern

After making enquiries, the Board considers that the Group has adequate resources to continue operating for the foreseeable future and therefore has adopted the going concern basis in preparing the accounts.

R King
CHAIRMAN

29 November 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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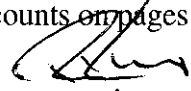
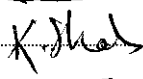
	Note	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
Turnover	2	99,002	68,672
Cost of sales		(55,240)	(41,022)
Gross profit		43,762	27,650
Net operating expenses			
Selling and distribution costs		(17,229)	(11,026)
Administrative expenses		(16,281)	(9,218)
Other operating income		356	553
Operating profit	3	10,608	7,959
Interest receivable		51	62
Interest payable	5	(1,295)	(704)
Profit on ordinary activities before taxation		9,364	7,317
Taxation	6	(2,925)	(2,105)
Profit on ordinary activities after taxation		6,439	5,212
Equity minority interest		(115)	153
Profit for the financial period		6,324	5,365
Dividends	7	(1,350)	(1,131)
Profit retained	17	4,974	4,234
Earnings per share – basic	8	30.12p	25.79p
Earnings per share – fully diluted	8	29.14p	24.85p
Dividends per share	7	6.5p	5.4p
EBITDA (Earnings before interest, tax, depreciation and amortisation)		11,619	8,715

All activities during the year were continuing. There were no material recognised gains or losses other than items dealt with in the profit and loss account above. For exchange rate movements taken to reserves see note 17 to the accounts.

CONSOLIDATED BALANCE SHEET

	Note	31 August 1999 £000's	31 August 1998 £000's
Fixed assets			
Tangible assets	9	3,070	2,853
Investments	10	433	2
Joint ventures – gross assets	10	126	-
– gross liabilities	10	(125)	-
– net investment	10	1	-
		3,504	2,855
Current assets			
Stocks	11	16,663	11,613
Trade debtors subject to factoring arrangements		18,989	12,765
Factor advances		(17,324)	(10,834)
		1,665	1,931
Trade and other debtors	12	8,595	5,651
Cash at bank and in hand		9,544	5,783
		36,467	24,978
Creditors: amounts falling due within one year	13	(27,327)	(19,699)
Net current assets		9,140	5,279
Total assets less current liabilities		12,644	8,134
Creditors: amounts falling due after more than one year	14	(55)	(130)
Net assets		12,589	8,004
Capital and reserves			
Called up share capital	16	1,052	1,049
Shares to be issued	22	2,320	4,143
Capital redemption reserve	17	15	15
Share premium	17	3,617	3,568
Merger reserve	17	651	651
Profit and loss account	17	4,934	(1,307)
Equity shareholders' funds		12,589	8,119
Equity minority interest		-	(115)
	15	12,589	8,004

The accounts on pages 13 to 27 were approved by the Board of Directors on 29 November 1999.

R King  Director
 K P Shah  Director


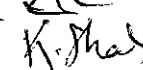

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PARENT COMPANY BALANCE SHEET

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	Note	31 August 1999 £000's	31 August 1998 £000's
Fixed assets			
Tangible assets	9	1,234	938
Investments	10	6,272	6,985
		7,506	7,923
Current assets			
Debtors	12	4,410	5,032
Cash at bank and in hand		1,190	64
		5,600	5,096
Creditors: amounts falling due within one year	13	(4,568)	(3,099)
Net current assets		1,032	1,997
Total assets less current liabilities		8,538	9,920
Net assets		8,538	9,920
Capital and reserves			
Called up share capital	16	1,052	1,049
Shares to be issued	22	2,320	4,143
Capital redemption reserve	17	15	15
Share premium	17	3,617	3,568
Profit and loss account	17	1,534	1,145
Equity shareholders' funds	15	8,538	9,920

The accounts on pages 13 to 27 were approved by the Board of Directors on 29 November 1999.

R King  Director
 K P Shah  Director

CONSOLIDATED CASH FLOW STATEMENT

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	Note	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
Cash flow from operating activities	19	9,535	12,200
Returns on investment and servicing of finance			
Interest received		51	62
Interest paid		(1,280)	(697)
Interest element of finance lease rental payments		(15)	(7)
Net cash outflow for returns on investments and servicing of finance		(1,244)	(642)
Taxation		(1,667)	(2,926)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,161)	(2,020)
Sale of tangible fixed assets		141	110
Purchase of shares for Employees Share Ownership Trust		(431)	-
Investment in joint venture		(1)	-
Net cash outflow for capital expenditure & financial investment		(1,452)	(1,910)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(678)	(3,295)
Net overdraft acquired with subsidiary		-	271
Net cash outflow for acquisitions		(678)	(3,024)
Equity dividends paid		(1,195)	(991)
Cash inflow before use of liquid resources and financing		3,299	2,707
Financing			
Issue of ordinary share capital		52	98
Repurchase of ordinary share capital		-	(285)
Capital element of finance lease rentals		(122)	(12)
Other advances		-	(938)
Short term bank loan		532	761
Net cash inflow/(outflow) from financing		462	(376)
Increase of cash in the year	21	3,761	2,331
Decrease in net debt in the year	21	3,351	2,520

NOTES TO THE ACCOUNTS

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1 Principal accounting policies

Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The directors consider that EBITDA is a standard measure commonly reported and widely used by analysts, investors and other interested parties. EBITDA represents earnings before net interest, taxation, depreciation and amortisation.

The principal accounting policies of the Group are set out below:

Basis of consolidation

The Group accounts for the year ended 31 August 1999 comprise the accounts of the Company and its subsidiaries all of which are made up to the end of the Company's financial year.

Where part of the purchase consideration for an acquisition is dependant on future profits of the acquired company, and can be satisfied, at the Group's option, by the issue of new shares, provision is made for the estimated future consideration, and shown in the Balance Sheet as 'shares to be issued' in accordance with the requirement of Financial Reporting Standard Number 7.

The profit and loss account for the parent company has not been included, as permitted by Section 230 of the Companies Act 1985.

Goodwill

Goodwill arising on acquisitions of businesses, associated undertakings or subsidiary undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisitions before 1 September 1998 was written off against reserves immediately on acquisition. In accordance with FRS 10, goodwill arising on acquisitions on or after 1 September 1998 will be capitalised as an intangible fixed asset and amortised over its estimated useful economic life. Goodwill previously written off directly to reserves has not been reinstated on the balance sheet, but written off against the profit and loss reserve in accordance with the transitional provisions of FRS 10.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life. The following principal rates per annum are used:

Freehold buildings	4%
Leasehold improvements	over the unexpired term of the lease
Fixtures, fittings and equipment	20 - 33%
Motor vehicles	20 - 25%
Tooling	20 - 50%

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Factoring arrangements

Certain subsidiaries have factoring agreements under which debts approved by the factor companies are assigned to them without recourse. Non-refundable advances are made by the factor companies. The directors do not intend that the companies will support any losses from factored debts, and the factor companies can only seek recourse of funds from the asset financed and will not seek any other recourse. A linked presentation of the relevant balances is therefore shown on the face of the balance sheet in accordance with the requirements of Financial Reporting Standard Number 5. The factoring charges are charged to the profit and loss account as they accrue.

Foreign currencies

In the financial statements of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.



NOTES TO THE ACCOUNTS

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1 Principal accounting policies (continued)

Foreign currencies (continued)

In the consolidated financial statements, the results and the balance sheets of overseas subsidiary undertakings are translated at the year end exchange rates. Exchange differences resulting from the re-translation of opening net assets are dealt with in reserves. All other exchange differences are dealt with in the profit and loss account.

Leasing and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Pension contributions

The Group operates defined contribution pension schemes. Contributions are allocated to the profit and loss account when due.

2 Turnover and segmental analysis

Turnover represents the amount derived from the provision of goods and services which arise from the Group's ordinary activities, stated net of value added tax. An analysis of turnover by geographical market is given below:

	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
United Kingdom	87,487	58,888
Rest of the world	11,515	9,784
	<u>99,002</u>	<u>68,672</u>

The directors consider that the disclosure of further dis-aggregated information would be seriously prejudicial to the interests of the Group.

3 Operating profit

	12 months to 31 August 1999 £000's	12 months to 31 August 1999 £000's
Operating profit is stated after charging:		
Staff costs (note 4)	<u>6,711</u>	<u>5,588</u>
Auditors' remuneration - Audit services	60	40
- Non audit services	<u>34</u>	<u>25</u>
Operating leases - land and buildings	643	287
- plant	14	13
- motor vehicle	<u>1</u>	<u>10</u>
Depreciation of tangible fixed assets		
- owned assets	927	710
- assets held under finance leases and HP contracts	<u>84</u>	<u>47</u>
	<u>1,011</u>	<u>757</u>



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4 Directors and employees

	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
Staff costs including directors' emoluments		
Wages and salaries	5,993	5,085
Social security costs	494	334
Other pension costs	224	169
	6,711	5,588
	6,711	5,588

The average number of employees during the year was:

	Number	Number
Management and administration	143	90
Selling and distribution	126	106
	269	196
	269	196

The amount payable to pension schemes as at the balance sheet date was £71,480 (1998: £48,000).

	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
Directors		
Emoluments including pension contribution	1,164	1,138
Emoluments, excluding pension contributions, of Chairman and highest paid director	287	283
	287	283

Directors' Remuneration

Disclosures on directors' remuneration, share options and pension contributions required by the Companies Act 1985 and those specified for audit by the London Stock Exchange are included in the Report of the Remuneration Committee and form part of these audited accounts.

5 Interest payable

	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
On bank overdraft and similar charges	311	174
Finance leases and hire purchase contracts	15	7
Factor advances	969	523
	1,295	704
	1,295	704

NOTES TO THE ACCOUNTS

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6 Taxation

	12 months to 31 August 1999 £000's	12 months to 31 August 1998 £000's
Hong Kong profits tax at 16.0% (1998: 16.0%)	432	431
Corporation tax on profit on ordinary activities at average 30.6% (1998: 31%)	2,420	1,661
Underprovision in previous years	73	13
	<u>2,925</u>	<u>2,105</u>

7 Dividends

On equity shares:	£000's	£000's
Interim dividends paid – 1.75p (1998: 1.45p) per share	366	302
Final dividends proposed – 4.75p (1998: 3.95p) per share	984	829
	<u>1,350</u>	<u>1,131</u>

8 Earnings per share – pence

	12 months to August 1999			12 months to August 1998		
	Profit after taxation	Weighted average number of ordinary shares	Pence per share	Profit after taxation	Weighted average number of ordinary shares	Pence per share
Basic earnings per share	6,324,000	20,994,615	30.12	5,365,000	20,806,591	25.79
Impact of share options	-	708,202	(0.98)	-	785,702	(0.94)
Diluted earnings per share	<u>6,324,000</u>	<u>21,702,817</u>	<u>29.14</u>	<u>5,365,000</u>	<u>21,592,293</u>	<u>24.85</u>

9 Tangible fixed assets

The Group

	Freehold land and buildings £000's	Leasehold improvement £000's	Tooling £000's	Fixtures fittings and equipment £000's	Motor vehicles £000's	Total £000's
Cost						
1 September 1998	983	82	1,016	1,185	793	4,059
Additions	171	4	302	361	491	1,329
Disposals	-	-	-	(2)	(259)	(261)
Differences on exchange	-	3	10	7	-	20
31 August 1999	<u>1,154</u>	<u>89</u>	<u>1,328</u>	<u>1,551</u>	<u>1,025</u>	<u>5,147</u>
Depreciation						
1 September 1998	45	19	403	497	242	1,206
Charge for year	38	16	475	270	212	1,011
Disposals	-	-	-	-	(140)	(140)
31 August 1999	<u>83</u>	<u>35</u>	<u>878</u>	<u>767</u>	<u>314</u>	<u>2,077</u>
Net book value						
31 August 1999	<u>1,071</u>	<u>54</u>	<u>450</u>	<u>784</u>	<u>711</u>	<u>3,070</u>
31 August 1998	<u>938</u>	<u>63</u>	<u>613</u>	<u>688</u>	<u>551</u>	<u>2,853</u>



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9. Tangible fixed assets (continued)

The net book value of motor vehicles includes £308,829 (1998: £135,984) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

The Company

	Freehold land and buildings £000's	Fixtures fittings and equipment £000's	Motor vehicles £000's	Total £000's
Cost				
1 September 1998	983	-	-	983
Additions	171	23	181	375
Disposals	-	-	-	-
31 August 1999	<u>1,154</u>	<u>23</u>	<u>181</u>	<u>1,358</u>
Depreciation				
1 September 1998	45	-	-	45
Charge for year	38	5	36	79
31 August 1999	<u>83</u>	<u>5</u>	<u>36</u>	<u>124</u>
Net book value				
31 August 1999	<u>1,071</u>	<u>18</u>	<u>145</u>	<u>1,234</u>
31 August 1998	<u>938</u>	<u>-</u>	<u>-</u>	<u>938</u>

The net book value of motor vehicles includes £22,120 in respect of assets held under finance leases and hire purchase contracts, the depreciation of which was £5,530.

10 Fixed asset investments

The Group

	Joint venture £000's	Own shares £000's	Shares listed in the UK £000's	Total £000's
1 September 1998	-	-	2	2
Additions at cost	1	431	-	432
31 August 1999	<u>1</u>	<u>431</u>	<u>2</u>	<u>434</u>

The market value of the listed investments is £2,030.

The Company

	Shares in subsidiary undertakings £000's	Joint venture £000's	Own shares £000's	Total £000's
1 September 1998	6,985	-	-	6,985
Additions at cost	678	1	431	1,110
Decrease in deferred consideration from previous acquisition	(1,823)	-	-	(1,823)
31 August 1999	<u>5,840</u>	<u>1</u>	<u>431</u>	<u>6,272</u>



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10 Fixed asset investments (continued) The Group (continued)

Issued shares in the Company are held by the trustee of the Company's Employee Share Ownership Trust ("the Trust") for the benefit of the Group's employees, former employees and their respective families. At 31 August 1999 the Trust held 135,000 shares which had a market value of £406,350.

At 31 August 1999 the Group held more than 10% of the equity of the following principal undertakings:

	Country of incorporation and operation	Class of share capital held	Proportion held by the parent undertaking	Nature of business
Toy Options Limited	United Kingdom	Ordinary	100%	Toy importer and distributor
Toy Options (Far East) Limited	Hong Kong	Ordinary	100%	Toy exporter
World Wide Licenses Limited	Hong Kong	Ordinary	100%	Design and distribution of watches, clocks, stationery, giftware, and computer accessories
Downpace Limited	United Kingdom	Ordinary	100%	Gift importer and distributor
WWL (UK) Limited	United Kingdom	Ordinary	100%	Watches, clocks and computer accessory distributor
Q-Stat Limited**	United Kingdom	Ordinary	100%	Stationery design and distributor
Prelude Worldwide Limited	United Kingdom	Ordinary	100%	Design and distribution of children's toiletries
Prelude (Far East) Limited	Hong Kong	Ordinary	100%	Children's toiletries
Delta Millennium (Far East) Limited	Hong Kong	Ordinary	51%	Computer accessories
Delta Millennium Inc.*	USA	Ordinary	51%	Computer accessories distributor
Character Promotions Limited	United Kingdom	Ordinary	50%	Euro 2000 merchandise distributor

* Not directly held.

** Renamed Universal Concepts (UK) Limited on 26 October 1999.

All of the subsidiary undertakings have been included in these consolidated accounts.

11 Stocks

	The Group 1999 £000's	The Group 1998 £000's
Finished goods for resale	16,663	11,613

NOTES TO THE ACCOUNTS

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12 Debtors

	The Group 1999 £000's	The Group 1998 £000's	The Company 1999 £000's	The Company 1998 £000's
Due from subsidiary undertakings	-	-	2,687	5,008
Trade debtors (non financing)	5,854	2,406	-	-
Other debtors	1,061	1,178	37	6
Prepayments and accrued income	1,555	2,065	245	16
Advance corporation tax	-	2	-	2
Other taxation & social security	-	-	68	-
Corporation Tax	-	-	1,248	-
Joint venture	125	-	125	-
	<u>8,595</u>	<u>5,651</u>	<u>4,410</u>	<u>5,032</u>

13 Creditors: amounts falling due within one year

	The Group 1999 £000's	The Group 1998 £000's	The Company 1999 £000's	The Company 1998 £000's
Trade creditors	15,057	11,933	-	-
Short-term bank loan	1,293	761	-	-
Due to subsidiary undertakings	-	-	2,831	20
Corporation tax	2,104	848	-	-
Other taxation and social security	2,055	3,567	-	1,643
Accruals and deferred income	5,691	1,739	753	607
Finance leases and hire purchase contracts	143	22	-	-
Proposed dividend	984	829	984	829
	<u>27,327</u>	<u>19,699</u>	<u>4,568</u>	<u>3,099</u>

Banks and a major trade creditor which offer trade finance are secured by debentures over the assets and undertakings of subsidiary companies. The short-term bank loan is secured by a fixed and floating charge over the assets of a subsidiary, and is further guaranteed by the Company.

14 Creditors: amounts falling due after more than one year

	The Group 1999 £000's	The Group 1998 £000's
Finance leases and hire purchase contracts repayable in less than five years	<u>55</u>	<u>130</u>

NOTES TO THE ACCOUNTS

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15 Reconciliation of shareholders' funds

	The Group 12 months to 31 August 1999 £000's	The Group 12 months to 31 August 1998 £000's	The Company 12 months to 31 August 1999 £000's	The Company 12 months to 31 August 1998 £000's
Profit for the financial period	6,324	5,365	1,739	1,606
Dividends	(1,350)	(1,131)	(1,350)	(1,131)
Goodwill	1,166	(3,847)	-	-
Exchange differences taken to reserves	101	(45)	-	-
Issue of shares	52	98	52	98
Shares to be issued	(1,823)	530	(1,823)	530
Purchase of own shares	-	(285)	-	(285)
Minority Interest	115	(115)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to/(subtraction from) shareholders' funds	4,585	570	(1,382)	818
Opening shareholders' funds	8,004	7,434	9,920	9,102
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	12,589	8,004	8,538	9,920

16 Called up share capital

	1999 £000's	1998 £000's
Authorised		
31,760,000 ordinary shares of 5 pence each	1,588	1,588
	<hr/>	<hr/>
Allotted called up and fully paid		
21,031,000 ordinary shares of 5 pence each	1,052	1,049
	<hr/>	<hr/>

During the year, following the due exercise of options, 48,000 shares were allotted at a price of 107 pence per share.

Share options

The Company adopted the rules of an Inland Revenue approved executive scheme on 3 May 1995, and on 31 May 1995, options were granted to 36 employees to acquire in aggregate up to 197,800 ordinary shares in the Company at 65 pence per share, subject to the rules of this scheme. On 28 March 1996, options were granted to two directors and two employees to acquire in aggregate up to 248,000 ordinary shares at 107 pence per share. On 5 March 1997, options were granted to 29 employees to acquire in aggregate up to 170,702 ordinary shares in the Company at 101 pence per share. On 5 December 1997, options were granted to 29 employees to acquire in aggregate up to 95,500 shares at 136.5 pence each. At 31 August 1999, options to acquire up to 415,702 shares remained outstanding under this scheme.

On 2 June 1997, the Company adopted rules constituting the Company's unapproved executive share option scheme, whose rules were approved by shareholders at the Extraordinary General Meeting held on 14 January 1997. On 5 December 1997, options were granted to 92 employees to acquire in aggregate up to 298,500 shares at 136.5 pence per share. At 31 August 1999, options to acquire 292,500 shares remained outstanding under the scheme.

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17 Share capital and reserves	Called up share capital £000's	Shares to be Issued £000's	Capital redemption reserve £000's	Share premium account £000's	Merger reserve £000's	Profit and loss account £000's	Goodwill write off reserve £000's	Minority Interest £000's	Total £000's
The Group									
1 September 1998	1,049	4,143	15	3,568	651	7,762	(9,069)	(115)	8,004
Shares issued	3	-	-	49	-	-	-	-	52
Shares to be issued (Note 22)	-	(1,823)	-	-	-	-	-	-	(1,823)
Transfer	-	-	-	-	-	(9,069)	9,069	-	-
Goodwill	-	-	-	-	-	1,166	-	-	1,166
Exchange differences	-	-	-	-	-	101	-	-	101
Profit retained	-	-	-	-	-	4,974	-	-	4,974
Minority Interest	-	-	-	-	-	-	-	115	115
31 August 1999	1,052	2,320	15	3,617	651	4,934	-	-	12,589
The Company									
1 September 1998	1,049	4,143	15	3,568	-	1,145	-	-	9,920
Shares issued	3	-	-	49	-	-	-	-	52
Shares to be issued (Note 22)	-	(1,823)	-	-	-	-	-	-	(1,823)
Profit retained	-	-	-	-	-	389	-	-	389
31 August 1999	1,052	2,320	15	3,617	-	1,534	-	-	8,538

In accordance with FRS 10, goodwill previously written off against reserves has not been reinstated and the goodwill has been offset against the profit and loss account reserve. The cumulative amount of positive goodwill written off against reserves is £7,903,000 (31 August 1998: £9,069,000).

The directors have reviewed the contingent consideration relating to the previous acquisitions and have reduced the consideration payable by £1,166,000.

18 Guarantees and other financial commitments

(a) Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 August 2000.

	1999		1998	
	Land & Buildings £000's	Plant & Equipment £000's	Land & Buildings £000's	Plant & Equipment £000's
Expiring within one year	173	5	-	-
Expiring within two to five years	139	6	315	10
Expiring within five years or more	137	-	121	-
	449	11	436	10

(b) The Group has entered into contracts for minimum royalties in the amounts set out below which are contracted to be paid to licensors irrespective of sales and are not provided for in the financial statements as the directors believe that the required level of future sales will be achieved:

	1999 £000's	1998 £000's
Within one year	1,398	2,673
Between one to two years	1,558	2,915
Between two to three years	-	1,044
	2,956	6,632



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(c) Financial commitments under finance leases and HP will result in the following payments falling due in the year to 31 August 2000.

	1999	1998
	£000's	£000's
Expiring within one year	12	10
Expiring within two to five years	54	60
	66	70
	66	70

19 Reconciliation of operating profit to net cash inflow from operating activities

	12 months to	12 months to
	31 August 1999	31 August 1998
	£000's	£000's
Operating profit	10,608	7,959
Depreciation	1,011	756
Loss on disposal of fixed assets	(20)	(7)
(Increase) in stocks	(5,051)	(4,218)
(Increase) in debtors	(2,679)	(288)
Increase in creditors	5,563	8,033
Exchange movement	103	(35)
	9,535	12,200
	9,535	12,200

20 Reconciliation of net cash flow to movement in net debt

	£000's	£000's
Increase in cash in the period	3,761	2,331
Cash inflow from movement in debt and lease financing	(410)	189
	3,351	2,520
Movement in net debt resulting from cash flows	3,351	2,520
Loans and finance leases acquired with subsidiaries	-	(298)
Other non-cash movements	(168)	(55)
	3,183	2,167
Movement in net debt in the period	3,183	2,167
Net debt at 1 September 1998	4,870	2,703
	8,053	4,870
Net debt at 31 August 1999	8,053	4,870

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21 Analysis of net debt

	Cash at bank & in hand £000's	Short term bank loan £000's	Lease finance £000's	Other advances £000's	Total £000's
1 September 1997	3,723	-	(82)	(938)	2,703
Cash flow	2,331	(761)	12	938	2,520
Non cash flow	-	-	(55)	-	(55)
Acquisitions	(271)	-	(27)	-	(298)
31 August 1998	5,783	(761)	(152)	-	4,870
Cash flow	3,761	(532)	122	-	3,351
Non cash flow	-	-	(168)	-	(168)
31 August 1999	9,544	(1,293)	(198)	-	8,053

22 Shares to be issued

	£000's
1 September 1998	4,143
Adjustments in relation to an acquisition in 1997	(1,823)
31 August 1999	<u>2,320</u>

23 The Character Group plc Employee Share Ownership Trust

The Employee Share Ownership Trust ("the Trust") is governed by a Trust Deed dated 19 June 1998 and has been established to acquire The Character Group plc shares. The Trustees shall grant options over such shares to the beneficiaries, as defined in the Trust Deed. The Trust is required to meet its own costs, and has waived its right to dividend income. At 31 August 1999, no options had been granted by the Trust.

24 Contingent liabilities

The Company has guaranteed the obligations of certain subsidiary companies to their factor companies, trade finance companies, certain banks, licensors and others in the normal course of business.

The Company is a member of a Group registration for Value Added Tax.

25 Related party transactions

The Group sold goods to the value of £2,619,269 to Delta Millennium Inc. during the year. The balance due to the Group at 31 August 1999 from Delta Millennium Inc. was £1,949,000.

There are no other material related party transactions.

26 Post Balance Sheet event

Since the year end, the operations of Prelude Worldwide Ltd and Q-Stat Ltd have been consolidated into one unit – Universal Concepts (UK) Limited (formerly Q-Stat Ltd).

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the accounts on pages 13 to 27 which have been prepared under the historical cost convention and the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 7, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if in our opinion the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for your audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report, including the Corporate Governance Statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on pages 11 and 12 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures nor its internal controls.


Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Group's and the Company's affairs as at 31 August 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

HLB Kidsons 
Registered Auditors and Chartered Accountants
Chelmsford
Essex

29 November 1999

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the fifth Annual General Meeting of The Character Group plc will be held at 3 London Wall Buildings, London Wall, London EC2M 5SY on Tuesday 18 January 2000 at 11 am to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and the accounts of the Company for the year ended 31 August 1999 and the report of the auditors thereon.
2. To declare a final dividend.
3. To re-elect Lord Birdwood, who retires in accordance with the terms of his appointment, as a director of the Company.
4. To re-elect Mr I S Fenn, who retires in accordance with the terms of his appointment, as a director of the Company.
5. To re-appoint HLB Kidsons (formerly named Kidsons Impey) as auditors of the Company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions which in the cases of resolutions numbered 6, 7 and 8 shall be proposed as ordinary resolutions of the Company and in the case of resolution numbered 9 shall be proposed as a special resolution of the Company:

6. That for the purposes of Section 80 of the Companies Act 1985 the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £350,500 such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the Company next following the date upon which this resolution was passed unless renewed, varied or revoked by the Company in general meeting provided that the Company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require relevant securities to be allotted after the expiry, variation or revocation of such authority and the directors may allot relevant securities pursuant to such offer or agreement as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of relevant securities to the extent that the same have not previously been utilised.

7. That the directors be and are hereby authorised for the purposes of Article 147 of the Articles of Association of the Company, to offer to members of the Company, in accordance with the provisions of the said Article, the right to elect to receive ordinary shares, credited as fully paid, in whole or in part instead of cash in respect of all or any dividends declared or paid by the Company or the directors pursuant to the Articles of Association of the Company at any time after the date of the passing of this resolution and prior to the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the Company next following the date upon which this resolution was passed and that the directors be and are hereby authorised to make any such offer on such terms and conditions to such members of the Company, subject always to the provisions of the Articles of Association of the Company, as they shall in their absolute discretion determine.
8. That the Company is hereby generally and unconditionally authorised to make market purchases (as defined in section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company provided that:

(A) the maximum number of ordinary shares of 5p each in the capital of the Company hereby authorised to be acquired is 3,154,600;

(B) the minimum price (exclusive of all expenses) which may be paid for such shares is 5p per share;

(C) the maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount equal to 105 per cent of the average of the middle-market prices shown in the quotations for ordinary shares of the Company in the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the share is contracted to be purchased;

(D) the authority hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date upon which this resolution was passed, or 15 months following the date upon which this resolution was passed; and

(E) the Company may contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of any such contract.



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NOTICE OF ANNUAL GENERAL MEETING

9. That:

(A) the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred on them for the purposes of Section 80 of the Act by an ordinary resolution of the Company of even date herewith as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

(i) to the allotment of equity securities in connection with any offer by way of rights to holders of ordinary shares in the capital of the Company notwithstanding that, by reason of such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or other problems arising in any overseas territory, in connection with fractional entitlements, record dates or otherwise howsoever, the equity securities to be allotted are not offered to all such holders in proportion to the respective number of ordinary shares held by them;

(ii) to the allotment of equity securities pursuant to Article 147 of the Articles of Association of the Company in favour of holders of ordinary shares in the capital of the Company where the equity securities respectively attributable to the interests of such holders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or practical problems under the laws, or the requirements, of any regulatory authority in any territory or otherwise howsoever in relation to fractional entitlements;

(iii) the allotment (otherwise than pursuant to paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal value of £52,577 (being approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 31 August 1999):

(B) the power hereby conferred shall expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution was passed or fifteen months following the date upon which this resolution was passed;

(C) the power hereby conferred shall enable the

Company to make an offer or agreement that would or might require equity securities to be allotted after such power expires and the directors may allot equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (A) above as if the power hereby conferred had not expired; and

(D) this power shall replace all existing powers granted to the directors to allot equity securities as if the said Section 89(1) of the Act did not apply to the extent that the same have not been previously utilised.

OTHER BUSINESS

10. To transact any other business which may lawfully be transacted at the Annual General Meeting.

By order of the Board
K.P. Shah
Secretary
30 November 1999

Registered Office
80 Fleet Street
London
EC4Y 1NA

Notes:

- (1) The register of directors' interests and copies of the directors' service agreements will be available for inspection at the registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and on that day will be available for inspection at the place of the meeting from 9 am until the conclusion of the meeting.
- (2) A member entitled to attend and vote at the Annual General Meeting convened by the Notice above is entitled to appoint a proxy to attend and, on a poll, vote in his place. A proxy need not be a member of the Company.
- (3) To be valid, forms of proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time appointed for holding the Annual General Meeting. A form of proxy is set out on page 31.
- (4) Completion of a form of proxy does not prevent a member from attending and voting at the Annual General Meeting should he or she so wish.
- (5) In order to have the right to attend and vote at the Annual General Meeting, a person must be entered on the register of members at 5.00 pm on 14 January 2000 or, in the case of an adjournment of the Annual General Meeting, at the time which is 48 hours before the time appointed for the adjourned meeting.



the
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Form of Proxy

The Character Group plc

For use at the Annual General Meeting of the Company on Tuesday 18 January 2000

I/We _____
(please use block capitals)

of _____ (being (a)

holder(s) of ordinary shares in the above named company) hereby appoint the chairman of the meeting

_____ (note 1)

as my/our proxy to vote on my/our behalf at the Annual General Meeting to be held at 3 London Wall Buildings, London Wall, London EC2M 5SY on Tuesday 18 January 2000 at 11.00 am and at any adjournment thereof.

Please indicate with a ✓ in the spaces below in either the for or against column how you wish your vote to be cast.

FOR AGAINST

	FOR	AGAINST
1. Ordinary resolution - adoption of accounts for year to 31 August 1999		
2. Ordinary resolution - declaration of final dividend		
3. Ordinary resolution - re-election of Lord Birdwood as a director		
4. Ordinary resolution - re-election of Mr I S Fenn as a director		
5. Ordinary resolution - reappointment of HLB Kidsons as auditors		
6. Ordinary resolution - authority to allot shares		
7. Ordinary resolution - authority to allot shares in lieu of cash dividends		
8. Ordinary resolution - authority to purchase own shares in the market		
9. Special resolution - disapplication of pre-emption rights		

Dated _____ Signature _____

Notes:

- (1) You may if you wish delete the words "Chairman of the meeting" and insert the name of the proxy of your choice in the space provided. Please initial such alteration.
- (2) If no indication is given as to how you wish your proxy to vote, your proxy will vote or abstain as he/she thinks fit. On any other business arising at the meeting (including any motion to adjourn the meeting) the proxy will act at his/her discretion.
- (3) In the case of joint holders, the signature of any one of them will be accepted but the signature of the senior of the joint holders shall be accepted to the exclusion of the others, seniority being determined by the order in which the names appear in the register of members of the Company.
- (4) In the case of a corporation, this Form of Proxy should be executed under its common seal or under the hand of an officer, attorney or other person duly authorised on its behalf.
- (5) Forms of Proxy signed by other than the registered holder will not be valid unless accompanied by the power of attorney (if any) or other authority under which it is signed or a notarially certified copy thereof.
- (6) To be effective, Forms of Proxy must be lodged with Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time appointed for the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No: BM 3865



Neville Registrars Limited
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

THIRD FOLD, THEN TUCK IN FLAP & TAPE ALONG EDGE

FIRST FOLD

GROUP STRUCTURE

The Character Group plc

